Paying Wages to Farm Family Members

G. Mawhiney, B. Rawn

Factsheet

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INTRODUCTION

Paying wages to family members involved in an agricultural business is an excellent way to recognize their efforts, instil a sense of participation and formalize their role within the family business. Farm families may also be able to boost their after-tax family income by paying farm business wages or salaries to family members. The employment relationship of the individual receiving the wage must be genuine. The person must enter into a valid employment contract and must contribute to the business.

Assuming this is the case and the employment relationship can be documented, paying wages to family members with a lower marginal tax rate than that of the business owner can result in overall tax savings to the family.

Potential tax savings is one benefit. But the largest payoff is in recognizing the important role played by all members of the family involved in the business.

A contact list for relevant government agencies is available at the end of this Factsheet.

ADVANTAGES OF PAYING WAGES TO FAMILY MEMBERS

- Paying wages to children or spouses for documented work on the farm is a tax-deductible expense to the farm business. Splitting the total business income among family members may reduce the family's total income tax bill.

- Canada Pension Plan (CPP) premiums are paid by all individuals who are 18 years of age or older and who are not already collecting CPP benefits, provided their total annual earnings exceeds $3,500. Individuals then become eligible for the retirement and disability benefits provided by the Canada Pension Plan.

- The family's interest in the farming operation may increase because of the monetary recognition of their efforts. Young adults can establish savings to assist with financing their education, buy a home or to acquire an ownership share of the business.

- Regular payments of wages to family members can replace ad hoc year-end tax reduction strategies such as pre-purchasing inputs or machinery.

- With no minimum age limit, anyone under 69 years of age with earned income from wages or salaries can open and contribute to a registered retirement savings plan (RRSP). If a plan is started early, the tax-sheltered growth can help pay for an education or a business or be left in the plan to grow until retirement.

- While employed in the farm business, a spouse who hires someone to look after children under 14 years of age can deduct childcare expenses. Relatives can be hired as child-care givers, provided the caregiver is over 18 years of age.

DISADVANTAGES

- The amount of paperwork and record keeping increases.

- There are added payroll expenses for the employer, such as federal Canada Pension Plan and Employment Insurance (EI) premiums as well as provincial Workplace Safety Insurance Board and Employer Health Tax premiums.

- Paying wages to family members may affect their eligibility for individual tax credits such as the Child Tax Credit.

Ministry of Agriculture, Food and Rural Affairs

Ontario

- Funds paid out in the form of salaries and bonuses will no longer be available for use in the business unless the funds are borrowed back from the wage earner.

FIRST TIME EMPLOYERS

Hiring people for a farm operation, whether family members or not, requires accurate records to track hours of work and calculate and payroll deductions. First time employers must:

- obtain an employer number
- register with the Workplace Safety Insurance Board.

Apply to a Canada Revenue Agency (CRA) District Taxation office to obtain an employer and receive an employer's kit, which includes tax tables, Canada Pension Plan and Employment Insurance tables, and personal tax credit return (TD-1E) forms.

Additional contact information is available at the end of this Factsheet.

PAPERWORK REQUIRED

To start:

- Obtain an employer registration number from the CRA. This is the employer's account number for submitting payroll deductions.

- Enter into a contract of service to hire the individual as an employee. Specify the work to be done, rate of remuneration, working hours, conditions of employment, benefits and so on.

- Apply for a social insurance number for any employee who does not have one.

- Complete a Personal Tax Credit Return for each employee, form TD1(E). This form outlines the appropriate tax credit for each employee. Keep this form to ensure the appropriate tax is withheld from the employee's pay cheque. Income taxes are to be withheld based on gross income (as per code on TDl(E) form).

- Register with the Workplace Safety and Insurance Board (WSIB).

- Some farm managers have traditionally paid workers as though they were contract labourers. That is no payroll records are kept and no deductions are made and submitted to CRA on their behalf. In many cases these workers are actually employees — not contractors — by virtue of the employer/employee relationship. Not treating these individuals as employees is unfair and improper. See Question 7 for more information.

- All farms that, as of June 30, 2006, have paid wages and salaries to workers come under the *Occupational Health and Safety Act for Agriculture*. Some requirements of this Act affect the farm operation. Contact the Ministry of Labour and the Farm Safety Association for more information. (See Contact Information).

Each month:

- Keep a monthly payroll ledger with detailed information on date of pay period, hours of work, gross pay, taxable benefits, CPP contributions, EI premiums, income tax, advances, deductions, net pay and amounts remitted to the CRA.

- Provide a monthly payroll transaction summary slip to employees with their pay cheques.

- Submit the monthly remittance on form PD7AR to the CRA. (Due by the 15th of the following month).

At year-end:

- Complete an annual payroll summary from the monthly payroll ledger records.

- Complete T4 Supplementary slips for all employees before February 28 of the following year.

- Submit T4-T4A Summary to the CRA. This is a summary of all remuneration paid to all employees.

- Complete and file a year-end summary with the Workplace Safety and Insurance Board.

- Complete and file payroll summary with Employer Health Tax.

A CRA publication *Machine Computation of Income Tax Deductions, Canada Pension Plan Contributions and Employment Insurance Premiums* (MC tables) is available for those calculating payroll deductions on a computer.

PAYROLL DEDUCTIONS

Canada Pension Plan (CPP)

Employee premiums are based on a percentage of the employee's earnings and are matched by the employer.

Salary, wages or other remuneration, commissions, bonuses and the value of board and lodging (other than exempt allowance for special or remote work sites) are subject to CPP contributions.

Premiums are not required for:

- individuals under the age of 18 or over the age of 70
- agricultural workers who, in a calendar year, earn less than $250 and work less than 25 working days
- employment where no cash remuneration is paid.

Employment Insurance (EI) Premiums

The Employee's Premium is based on a percentage of insurable earnings to an annual maximum.

The employer's contribution is 1.4 times the amount of the employee's EI premiums, to an annual maximum per employee. Employee and employer premiums are required for any individual earning insurable employment income. All employment in Canada, under a contract of service, is insurable employment unless otherwise exempted.

Spouses and family members are considered insurable if they are working in a valid employer/employee relationship under a contract of service. You should obtain a ruling from CRA if there is any doubt whether or not a valid contract for service has been established. For additional information, see Question 7.

There is no minimum or maximum age limit for EI premiums; those over age 65 who are working will continue to pay premiums.

Employee and employer premiums are not required:

- for employment in agricultural enterprises of less than seven working days in a calendar year or the person receives no cash remuneration
- for employment by a corporation of a person who controls more than 40 per cent of issued voting shares
- where the family member is an independent contractor working under a contract for service
- where the family member is not dealing with you at "arm's length" and is not working under a valid employee/employer relationship
- employment that is an exchange of work or services.

Workplace Safety Insurance Board (WSIB) Premiums

The WSIB provides:

- benefits to owner/operators and workers should they became injured or sick on the job
- safety information and training through Workplace Safety Prevention Services (formerly known as the Farm Safety Association).

Assessment fees

Farm operations are classified into rate groups depending on the type of farming. Each rate group has a dollar amount assigned to it annually by the Board that reflects the past and expected future costs of injuries and occupational illnesses within that rate group.

Employers pay an annual assessment based on the rate into which they fall and their assessable annual payroll.

This annual assessment is calculated by multiplying each $100 of assessable payroll (to the maximum earnings ceiling established in the *Workplace Safety and Insurance Act*) by the dollar amount assigned to the employer's rate group. It is illegal to deduct the cost of WSIB premiums from a worker's wages.

A farmer must report and register its business with the WSIB within one month of first hiring employees. Registration information, plus other online services, can be found on their website. (See Contact Information.)

Annual payroll information for assessment purposes must be filed by April 30 each year.

Failure to comply with the WSIA is a quasi-criminal offence and farmers could be prosecuted under the *Provincial Offences Act*.

The Office of the Employer Advisor is an arms-length organization that offers employers free advice on WSIB matters. (See Contact Information.)

Employer Health Tax

Employers in Ontario with a payroll in excess of $400,000 annually must pay Employer Health Tax (EHT). Those who do not meet this threshold do not pay EHT.

EHT remittances are submitted annually using the Employer Health Tax return, which is due March 15 of the following calendar year. Information is available from the Ontario Ministry of Finance.

ANSWERS TO COMMON QUESTIONS

1. *If I hire someone for a few days a year to help with seeding or harvest, do I need to deduct CPP and EI?*

   No. CPP premiums are not required for employees hired for less than 25 working days in a calendar year and employees who work less than seven days in a calendar year are not required to pay EI premiums.

   However Workplace Safety and Insurance Board coverage and Employer Health Tax contributions are required.

2. *Can I pay my spouse or child's salary once at the end of the year?*

   Yes, provided payment is actually made and deductions are remitted as required. Do not expect to be able to decide how much to pay after the 12-month business year has expired. It is important to have a written agreement on file detailing the job specifications, including salary levels.

3. *Should I pay my employees by cheque?*

   Yes. Payments should be by cheque and made out for the end of time period covered, i.e., weekly or monthly. Employees should deposit the cheque in their bank account to indicate control over the funds.

4. *What if the farm business can't afford to pay its family members their salaries?*

   An alternative is to pay the spouse or child the usual salary and have them lend the money back to the employer with a properly documented demand note. An actual cash transaction must take place where the employee receives the money and then lends it or invests it back into the business.

5. *What if I don't like to or don't have time to keep payroll records?*

   An employer must keep payroll records as required by the *Employment Standards Act,* as well as for tax purposes. Accountants or tax filers can help with the initial setup of payroll deductions and monthly procedures if necessary. Talk to the Record of Employment specialist at Service Canada for more information.

6. *What if I pay my employees in kind rather than in cash?*

   Payments to employees in kind rather than cash are treated as "non-cash benefits", which are taxable. The fair market value of the payment in kind given to the worker is a benefit to the individual that must be reported on a T4A slip. These benefits are not pensionable and not insurable by the employer, therefore no CPP and EI deductions are required by the employer.

7. *What if I hire someone on contract, do I need to make payroll deductions?*

   No. If the contract labourer is a self-employed worker contracted to do a certain job, only the contracted job cost must be paid. Custom operators must provide a Clearance Certificate issued by the WSIB or the employer is responsible for the WSIB premiums. Ask for the CRA publication *RC4110 (E) Rev 06* for help with this critical determination, since the result will affect EI and CPP contributions.

8. *When deciding on salary levels for spouse and children, what is reasonable?*

   Salaries or wages must be of a reasonable amount based on the extent and type of work performed by the family member. Consider what a non-family member would be paid to do the same work. Minimum wage guidelines apply.

9. *If my spouse is currently paid as an employee is there any problem in them becoming a business partner later on?*

   There is generally no problem changing from an employee to business partner as long as it is possible document to CRA how the former employee's

shares or partnership interest in the business have been acquired or accumulated.

10. *If I pay my family members (children, spouse) does my operation come under the Occupational Health and Safety Act (OHSA) or is there an exemption for immediate family members?*

    There is no exemption. If a farm operation has paid workers (money is exchanged for work) then the operation falls under OHSA.

11. *Can my spouse, as a farm employee, in turn hire her mother to look after our young children and deduct the personal child-care expenses while working for me in the farm business?*

    The spouse with the lowest income may claim childcare expenses. When the caregiver is "connected", the connected person must be 18 years of age or older and not claimed as a dependent by the employer. In the case of a spouse hiring a mother-in-law, childcare expenses would be deductible in most situations.

ADDITIONAL RESOURCES

The Canadian Farm Business Management Council (CFBMC) publishes *Managing People on Your Farm.* This excellent publication uses case histories to illustrate various management and employment techniques designed to improve managerial skills.

CONCLUSION

Paying wages to family members does not have to be an onerous task. When setting up the business or changing an already established one, make sure to follow all regulations that apply. Check with the appropriate government agencies and do not be afraid to ask for help from an accounting firm or lawyer. Preparation is the key when setting up wage payment plans not just to family members but regular employees as well.

While this Factsheet provides an overview of the steps and requirements involved, it does not cover all individual business and family situations. Be sure to consult an accountant or tax professional.

This Factsheet was revised by Gary Mawhiney, Human Resources Management Program lead, OMAFRA, Guelph. The original Factsheet was authored by Bev Rawn, OMAFRA, Guelph. The author also wishes to acknowledge the assistance of Kristine Jack, OMAFRA, Guelph, in the preparation of this revision.

CONTACT INFORMATION

Canada-Ontario Business Service Centre

Telephone: (416) 775-3456
Toll Free: 1-800-567-2345
Fax No.: (416) 954-8597
Email: ontario@cbsc.ic.gc.ca
Website: www.entreprisescanada.ca

Canada Pension Plan

Telephone: 1-800-277-9914
Website: www.servicecanada.gc.ca
Address:

Service Canada
Canada Enquiry Centre
Ottawa ON K1A 0J9

Canada Revenue Agency

Telephone: 1-800-959-5525
Website:
www.cra-arc.gc.ca/tx/bsnss/sgmnts/frmng/menu-eng.html

Canadian Farm Business Management Council

Suite 300, 250 City Centre Avenue
Ottawa, Ontario K1R 6K7

Telephone: (613) 237-9060
Toll-free: 1-888-232-3262
Fax No: (613) 237-9330 or toll-free: 1-800-270-8301
Email: council@cfbmc.com
Website: www.farmcentre.com

Farm Safety Association

101-75 Farquhar St.
Guelph, Ontario N1H 3N4

Telephone: (519) 823-5600
Email: info@farmsafety.ca
Website: www.farmsafety.ca

Office of the Employer Advisor

Ministry of Labour
151 Bloor Street West, Suite 704
Toronto, Ontario M5S 1S4

Telephone: (416) 327-0020
Toll free: 1-800-387-0774
Fax: (416) 327-0726
Email: askoea@ontario.ca
Website: www.employeradviser.ca

Ontario Ministry of Finance/ Employer Health Tax

Tax Revenue Division
33 King St W
Oshawa, Ontario L1H 8H5

Telephone: 1-800-263-7965 or 1-800-263-7776
Fax No.: 1-877-4-TAX-FAX or 1-877-482-9329
Website: www.ontario.ca/finance

Ontario Ministry of Labour

400 University Ave
Toronto, Ontario M7A 1T7

Phone No: (416) 326-7160
Toll-free: 1-800-531-5551
Website: www.ontario.ca/labour

FOR YOUR NOTES

Agricultural Information Contact Centre:
1-877-424-1300
E-mail: ag.info.omafra@ontario.ca
Northern Ontario Regional Office:
1-800-461-6132

www.ontario.ca/omafra

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